HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saguenay CMA

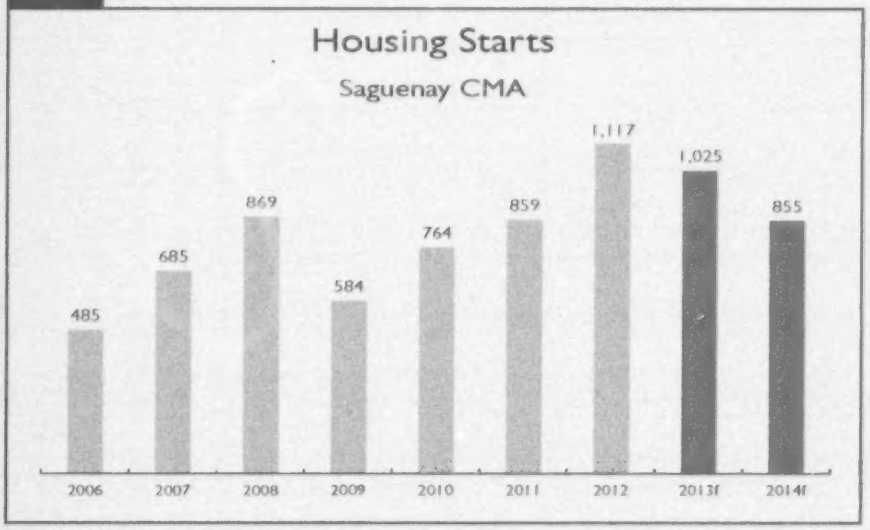
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- This year and next, the labour market will be less dynamic than in 2012, which will dampen the overall housing demand.
- Net migration should be expected to decline, as more young people leave in search of employment opportunities.
- While, in recent years, the market has favoured sellers, the relationship between buyers and sellers will shift and give a slight edge to buyers, which will contribute to slowing the growth in prices.
- Decreases are anticipated on the new home market, but activity will remain significant.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 16, 2013.

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New home market: declines are anticipated

The weaker job market and demographic conditions as well as the greater choice of existing properties for sale on the market will cause residential construction to moderate in Saguenay.

Single-detached home starts should fall to 325 units in 2013 and then to 300 units in 2014, for decreases of 19 per cent and 8 per cent, respectively. Several factors will account for these drops: the decline in employment, the price increases in recent years and the broader choice of properties for sale on the existing home market.

In the multi-unit housing segment, activity will be relatively stable this year thanks to several factors: the affordability of semi-detached and row homes and the relatively low vacancy rate for traditional rental housing.

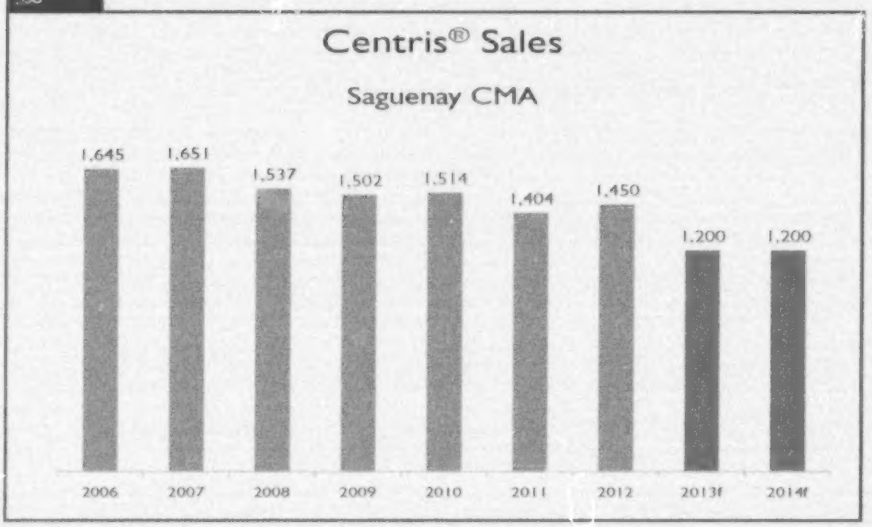
Next year, however, multi-unit housing construction will decline significantly. In fact, a drop of 21 per cent is forecast. Rental housing will be mainly affected on account of the sustained level of starts expected this year and the anticipated easing of market conditions.

Overall, in 2013, total housing starts will decrease by 8 per cent, to 1,025 units.

Next year, activity on the new home market will again be moderated by stable employment and a softer rental market as well as by buyer's market conditions and higher mortgage interest rates.

In all, in 2014, starts will fall by 17 per cent, to 855 units, but activity will remain strong despite this decrease.

Figure 2



Source: QFREB by the Centris® system - f: CMHC forecasts

Existing home market: a slowdown is in sight

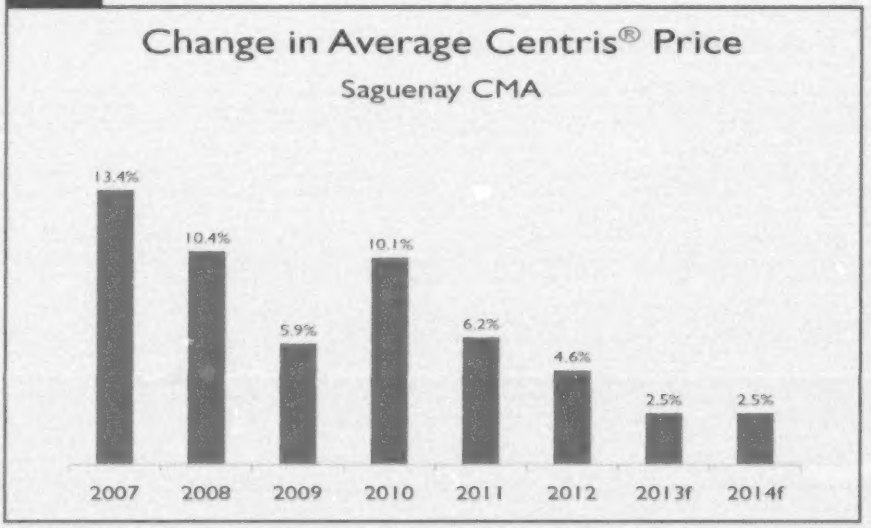
The recent decline observed on the job market limited the number of buyers on the resale market. There was also the recent tightening of the mortgage financing rules.

As a result, activity on this market declined in the third quarter of 2012 and then remained stable until the second quarter of 2013.

In the third quarter, activity was weaker, likely on account of the recent job losses.

From now until the end of the year, the pace of transactions is expected to remain relatively less sustained than in recent years, which will cause

Figure 3



Source: QFREB by the Centris® system - f: CMHC forecasts

Centris® sales to fall to 1,200 units, for a drop of 17 per cent from 2012.

In 2014, the broader choice of properties for sale and the still attractive financing conditions will support demand on the existing home market. However, the stable employment and the gradual rise in interest rates during the second half of 2014 will limit the growth in sales.

Overall, for next year, Centris® sales are expected to stabilize, as they should reach 1,200 units, or the same number as in 2013.

The recent trend on the resale market had several repercussions: rising inventory of properties for sale, softer market conditions, longer listing periods and slower growth in prices.

Buyers in the area will benefit from a greater choice of properties for sale. The supply of homes being sold through real estate brokers (that is, active Centris® listings) will increase by 22 per cent this year, to an average of 1,100 units. In 2014, active listings will stay at a similar level.

This will change the relationship between buyers and sellers. While sellers still had the edge in 2012, the market will become favourable to buyers in 2013. Buyers will therefore have more power to negotiate the conditions for buying a property, which will contribute to slowing the growth in prices.

As a result, the average Centris® price of residential properties will rise by 2.5 per cent both this year and next, reaching $190,000 in 2013 and then $195,000 in 2014.

Rental market: conditions will continue to ease

Last year, the rental market eased slightly, as the vacancy rate rose from 1.4 per cent to 2.0 per cent. The increase in the supply of rental housing essentially explains this market trend, since employment remained strong.

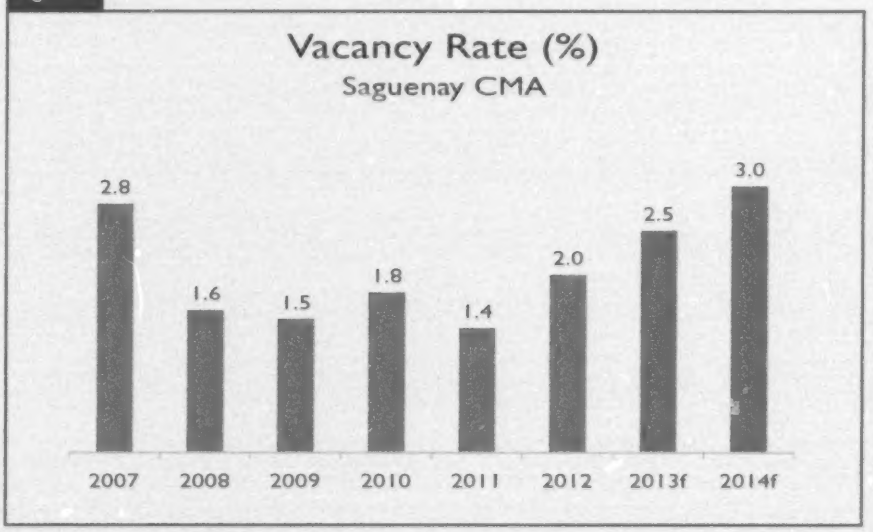
This year, the decline in employment will affect rental housing demand in different ways. On the one hand, demand will be lower on account of the decrease in the number of young people who will find jobs in the area. On the other hand, conditions will be less favourable to homeownership, which will keep tenants on the rental market. All in all, demand should be relatively stable or down slightly.

The increase in supply will drive up the percentage of vacant units, though, especially in a context where demand is stable. As a result, the vacancy rate will rise to 2.5 per cent this year.

Next year, market conditions will ease again, as demand will remain unchanged and supply will increase as a result of the new units started in 2013. However, since rental housing starts will slow down, this factor should not cause the market to soften significantly. The vacancy rate is expected to reach 3.0 per cent in 2014.

Given the easing of the market, the average rent for two-bedroom apartments will rise moderately, in both 2013 and 2014, to $560 and $570, respectively.

Figure 4



Source: CMHC & CMHC forecasts

Economic trends: employment will be affected by the end of several capital projects

In recent years, the slower global economic growth has caused employment to stagnate in the manufacturing and aluminum production sectors in the area, even though there was some improvement in 2012.

This year and next, the job market will reflect not only the rather weak growth of the Quebec economy but also that of the global aluminum production industry. This industry is facing a significant global inventory[1] and an economic slowdown in emerging countries, which are key trading partners. This will also cause some capital projects in this sector to be put on hold.

In 2013, the labour market will be affected by the end of several major projects, such that the number of jobs will fall by 2.4 per cent. This decrease in employment, combined with the small decline in the labour force, will cause the unemployment rate to rise to 8.2 per cent in 2013, from 7.6 per cent a year earlier.

Next year, the area will likely benefit from various mining, wind energy and institutional development projects, which will support and stabilize employment in the CMA. As a result, in 2014, the job market will present rather stable conditions, compared to 2013.

This year and next, the labour market will be less dynamic, which will dampen the overall housing demand.

Population: results will show some losses

The job losses anticipated in 2013 and the rather stable situation expected for 2014 will make things more difficult for young people seeking jobs.

Net migration should therefore be expected to decline, as more young people leave in search of employment opportunities.

As a result, net migration in the area, which showed a loss of nearly 50 people in 2012, should register annual losses of 150 people in 2013 and 2014.

Even if the area will show some losses, net migration will still post one of the best levels in the CMA, from a historical standpoint. This will somewhat moderate housing demand in the CMA, especially on the rental market.

Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.[2]

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

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[1] Desjardins, Commodity Trends, "Economic Studies," February 11, 2013, www.desjardins.com/en/a_propos/etudes_economiques/previsions/tendances-matieres/tmp1302.pdf.
[2] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting," Federal Reserve Bank of New York (2013), Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

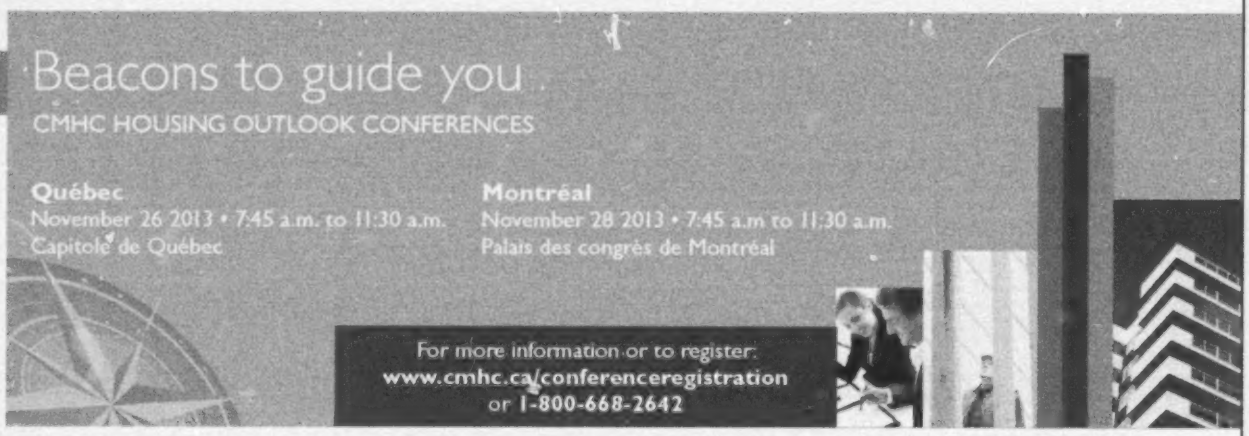
Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	This year and next, the labour market will be less dynamic, which will dampen the overall housing demand.
Income	Average weekly earnings rose at the same rate as inflation in the Saguenay CMA. The real income of workers therefore remained stable, which slightly limited access to homeownership.
Population	The area will show some losses in terms of net migration. This will somewhat moderate housing demand in the CMA, especially on the rental market.
Resale Market	The greater choice of properties for sale will weaken demand for new housing.

Forecast risks

This outlook is subject to some risks, including the following:

- A larger-than-expected decline in employment could result from a potential postponement of certain capital projects in the CMA and slower-than-expected economic growth in the province. Such a situation would further limit housing demand over the next two years. The existing, new and rental housing markets would therefore be affected.
- Likewise, if employment were to show greater signs of slowing down, migration could be less strong than anticipated, which would weaken demand in the rental segment and cause this market to ease further.
- However, employment growth could also be greater than expected, especially if certain major capital projects that have been announced are carried out during the first half of 2014. If employment is further boosted, this will result in a stronger-than-expected housing demand.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Forecast Summary Saguenay CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	380	475	400	325	-18.8	300	-7.7
Multiples	403	384	717	700	-2.4	555	-20.7
Starts - Total	783	859	1,117	1,025	-8.2	855	-16.6
Average Price ($):							
Single-Detached	192,705	203,165	221,202	230,000	4.0	238,000	3.5
Median Price ($):							
Single-Detached	180,000	180,000	200,000	210,000	5.0	217,000	3.3
New Housing Price Index (% chg) (Que.)	3.1	2.6	1.7	n.d.	-	n.a.	-
Resale Market[1]							
Centris® Sales	1,514	1,404	1,450	1,200	-17.2	1,200	0.0
Centris® New Listings	2409	2353	2502	2600		2550	0.0
Centris® Active Listings	764	810	905	1100	3.9	1100	-1.9
Centris® Average Price ($)	167,091	177,406	185,623	190,000	21.6	195,000	0.0
Rental Market[2]							
October Vacancy Rate (%)	1.8	1.4	2.0	2.5	0.0	3.0	0.0
Two-bedroom Average Rent (October) ($)	535	557	549	560	-	570	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	0.0
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	69,500	68,000	72,200	70,500	-	70,500	-
Employment Growth (%)	-1.3	-2.2	6.2	-2.4	-2.4	0.0	0.0
Unemployment rate (%)	8.1	7.0	7.6	8.2	-	8.5	-
Net Migration	-195	-76	-49	-150	-	-150	-

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics, CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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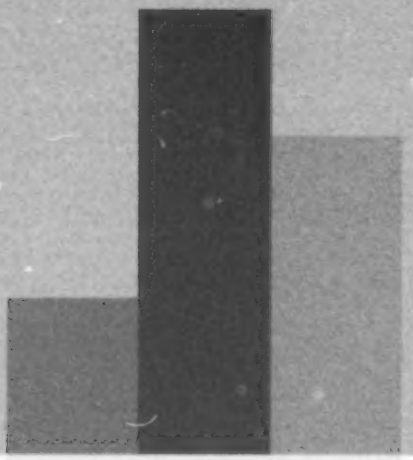

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